
Neighborhood Diversity Characteristics in Iowa and their Implications for Home Loans and Business Investment

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Iowa's minority population represents 9.4 percent of the state's population as a whole. This statistic understates the degree of racial and ethnic diversity in many geographic areas within the state and overstates diversity levels in others. An analysis of the racial and ethnic composition of the state's 793 census tracts in 2000 revealed the following patterns.

- ▶ The Black population was the most geographically concentrated of the state's larger minority groups. For example, 80 percent of the state's Black residents lived within a set of just 166 census tracts that accounted for only 25 percent of the state's entire population. In 2000, the average Black population percentage within these census tracts was 6.9 percent, a level more than three times the statewide average of 2.1 percent. The highest Black alone population percentage in any single census tract was 89 percent.
- ▶ Iowa's Asian residents were slightly more geographically dispersed than the Black population. A set of 208 census tracts accounted for 80 percent of the Asian population and 35 percent of the state's total population. The average Asian population percentage within those census tracts was 2.9 percent, more than twice the statewide average of 1.3 percent. The highest Asian alone population percentage in any single census tract was 52 percent.
- ▶ Our Hispanic population was the most geographically dispersed among Iowa's larger minority groups. A set of 275 census tracts accounted for 80 percent of the Hispanic population and 41 percent of Iowa's total population. The average Hispanic population within those areas was 5.5 percent, slightly less than twice the statewide average of 2.8 percent. The highest Hispanic population percentage in any single census tract was 43 percent in 2000.

The geographic concentration of the state's minority population within a relatively small number of diverse neighborhoods suggests an additional important dimension for analysis and begs an important question: How do these racially and ethnically diverse neighborhoods differ from less diverse areas of the state? Furthermore, what are the implications for these concentrations of racial or ethnic diversity for homeownership and business development? For many minority-owned businesses, especially retail and service firms, these neighborhoods represent their primary market areas as well as their likely places of residence. The overall economic conditions within these neighborhoods can be just as

important to the success of such firms as the characteristics of the minority business owners themselves. In short, then, when we are investigating regional diversity and the potential for entrepreneurship, both the entrepreneur as a person and the region of entrepreneurial activity matter greatly.

How Do We Define “Diverse Neighborhoods”?

In this section, we compare characteristics of neighborhoods that are racially or ethnically diverse to less diverse areas within the state. As a first step, we must define what we mean by “neighborhood” and “diverse.”

Neighborhoods

We begin our neighborhood definition by distinguishing between metropolitan areas and non-metropolitan areas. Metropolitan statistical areas (MSAs) are designated by the U.S. Office of Management and Budget. They contain a core city with 50,000 or more residents, plus adjacent communities having a high degree of economic and social integration with that core. MSAs are defined at the county level of geography. Iowa contains all or part of nine different metropolitan statistical areas.

Within the metropolitan and non-metropolitan regions, we used census tracts as the basis for our neighborhood definitions. The U.S. Census Bureau defines census tracts as follows:

Census tracts are small, relatively permanent statistical subdivisions of a county. Tracts are delineated by a local committee of census data users for the purpose of presenting data. Census tract boundaries normally follow visible features, but may follow governmental unit boundaries and other non-visible features in some instances; they always nest within counties. Designed to be relatively homogeneous units with respect to population characteristics, economic status, and living conditions, census tracts average about 4,000 inhabitants.

Iowa has 793 census tracts with an average population size of 3,690 inhabitants. The average size of census tracts in metropolitan counties is 3,970 inhabitants. In non-metro counties, the average is 3,415 inhabitants. No county has fewer than two census tracts. Polk County contains the largest number of census tracts at 80.

This delineation is important as we are defining neighborhoods in Iowa that are primarily metropolitan influenced as compared to those that are not. As metropolitan areas are centers of commerce, government, and service industries, we expect for there to be substantial differences in the availability of jobs, the amount of trading activity that takes place, the density of demand for certain types of goods and services, and the overall average incomes of the residents.

Diversity

We defined diversity based upon the total minority group percentage of the population in a given area. Minority population groups include all Hispanic or Latino persons and all persons of any race other than white alone. Recent county-level population estimates suggest the minority population percentage in Iowa is 9.4 percent.

The most recent census-tract level data available are from the 2000 Census, however, at which time the minority population represented 7.4 percent of the statewide population. Iowa's metropolitan areas averaged a 9.9 percent minority population, while the average minority percentage in non-metropolitan areas was 4.5 percent. We doubled these average percentage levels to obtain our thresholds for defining diverse neighborhoods in metropolitan and non-metropolitan areas. The levels used for assigning census tracts into four groups are illustrated below. It is important at the outset to note that the thresholds for diversity differ substantially for our metro and non-metro areas. It takes more than twice the rate of minority population to label a metropolitan area diverse than in a non-metro neighborhood.

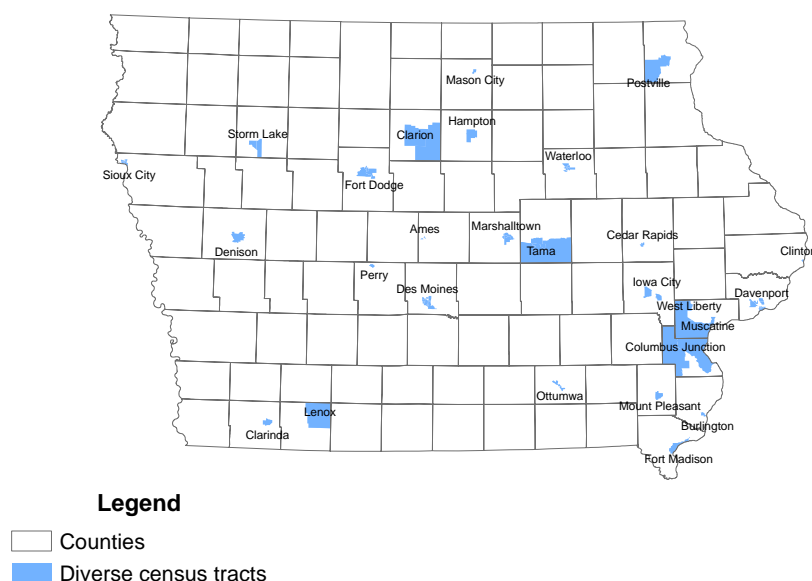
Table 1: Diversity Thresholds: Percent Minority

Type of County	Metropolitan	Non-metropolitan
Non-Diverse	Minority population < 19.8%	Minority population < 9.0%
Diverse	Minority population >= 19.8%	Minority population >= 9.0%

Using this typology, 92 census tracts meet our criteria as diverse neighborhoods. Eight metropolitan counties contain 54 of these diverse neighborhoods and the remaining 38 diverse neighborhoods are scattered across 18 non-metropolitan counties. The locations of these neighborhoods are illustrated in the map in Figure 1. Note that census tract boundaries do not necessarily align with incorporated city boundaries.

Figure 1

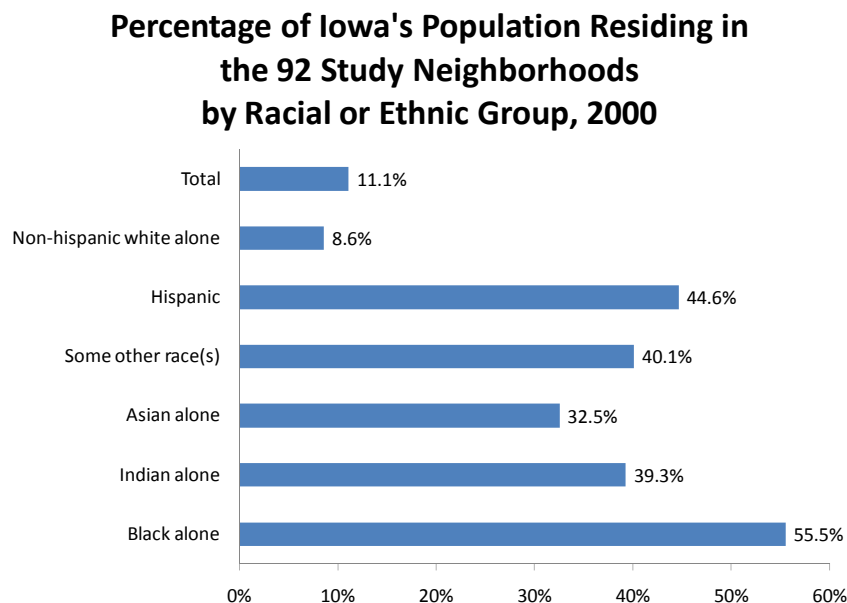
Locations of Diverse Neighborhoods



Demographic Characteristics of the Diverse Neighborhoods

The 92 diverse neighborhood census tracts had a combined total of 326,095 residents in 2000, or 11.1 percent of Iowa's total population. They contained more than half of Iowa's Black population (55.5 percent) and more than a third of the state's Hispanic population (44.6 percent), American Indian population (39.3 percent), and other racial minority group population (40.1 percent). These neighborhoods also contained slightly less than one third of Iowa's Asian residents. In contrast, they contained only 8.6 percent of Iowa's non-Hispanic white alone population. The population percentage shares for these areas are summarized below.

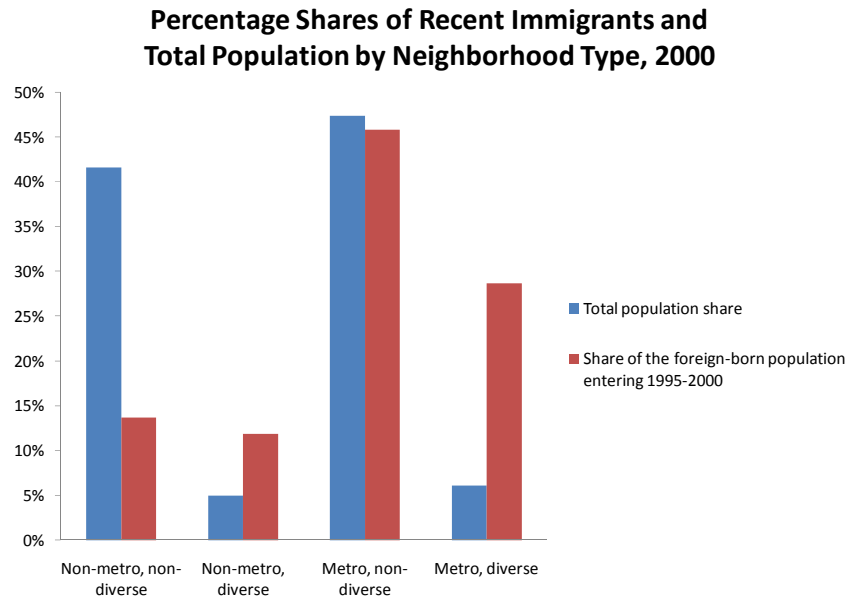
Figure 2



Iowa's diverse neighborhoods had higher fractions of foreign-born residents than non-diverse neighborhoods. In 2000, those residents accounted for 12.7 percent of the population in diverse metropolitan areas and 7.6 percent in diverse non-metropolitan neighborhoods. Those levels were more than twice the levels found in non-diverse metropolitan areas (3.0 percent) and non-metropolitan areas (1.3 percent).

High-profile events such as the immigration raids in Postville and Marshalltown have drawn attention to growing minority and foreign-born populations in Iowa's non-metropolitan areas. Still, it appeared that recent immigrants to Iowa were drawn in greatest numbers to the state's metropolitan areas. Within the metropolitan areas, the diverse neighborhoods captured much larger than expected shares of recent immigrants than non-diverse neighborhoods. The percentage shares of foreign-born residents who had entered the United States within five years prior to the last census are illustrated by neighborhood type below in Figure 3.

Figure 3



Economic Characteristics of Diverse Neighborhoods

The diverse neighborhoods differ markedly from other neighborhoods on several key economic measures. Notably, these regions are characterized by higher than average unemployment rates and poverty rates, lower labor force participation rates and self-employment rates, and a higher fraction of renter-occupied housing units. Even for non-minority residents in these diverse neighborhoods, average income levels and home values are lower than residents in non-diverse neighborhoods.

Table 2 tells us also that the gap in median home values and in median household incomes is much starker in metropolitan areas versus non-metros when comparing diverse neighborhoods. For income, the diverse non-metro neighborhood was just 8 percent less and home values were also 8 percent less. For metro areas, diverse neighborhood median incomes were 27 percent less and home values were 41 percent less. We also see that among Blacks and among Asians, their diverse neighborhood poverty levels strongly exceeded the levels in non-diverse neighborhoods. For Blacks the rate was nine percentage points higher. In all, then, this measure of neighborhood diversity elicits some sharp socio-economic contrasts.

Table 2: Key Attributes of Diverse and Non-Diverse Neighborhoods, 2000 Census

Neighborhood Characteristics in 2000	Non-Metropolitan Areas		Metropolitan Areas	
	Non-Diverse Neighborhoods	Diverse Neighborhoods	Non-Diverse Neighborhoods	Diverse Neighborhoods
Unemployment rate	3.8%	6.1%	3.8%	9.1%
Labor force participation rate	65.8%	62.7%	71.2%	66.7%
Percentage of workers self-employed in own unincorporated business	11.2%	7.1%	6.2%	4.1%
Percentage renter-occupied housing units	23.8%	33.9%	27.5%	51.8%
Percentage of families in poverty	6.0%	9.9%	4.5%	16.1%
Black alone % of individuals in poverty	27.8%	36.8%	26.6%	35.2%
Asian alone % of individuals in poverty	7.5%	20.4%	13.1%	18.7%
Hispanic % of individuals in poverty	20.2%	21.0%	16.5%	24.7%
Non-Hispanic White alone % of individuals in poverty	8.3%	11.4%	6.9%	16.0%
Average median household income for non-Hispanic white householders	\$36,772	\$33,816	\$44,971	\$28,661
Average median value of homes for non-Hispanic white householders	\$65,836	\$60,550	\$99,782	\$58,773

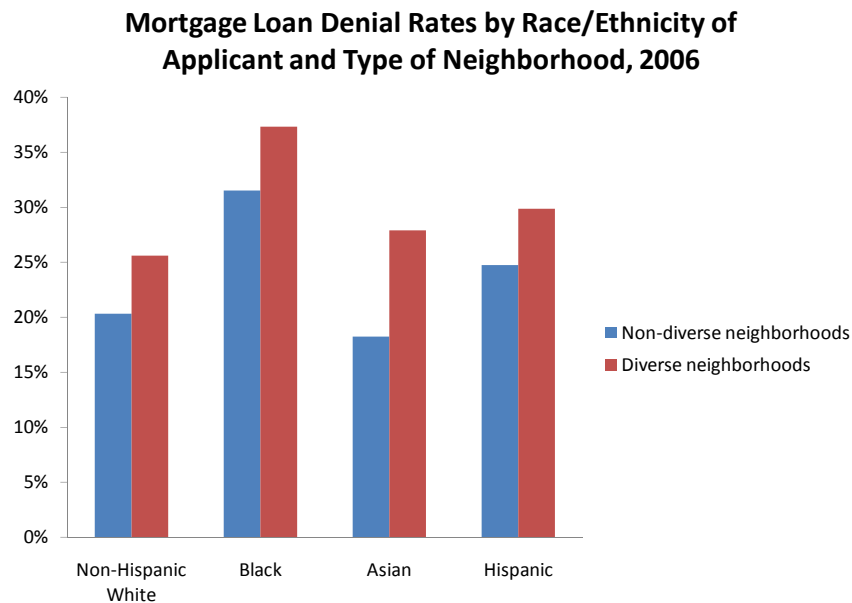
These differences in socio-economic characteristics are related to differences in economic prospects and outcomes for residents of diverse and non-diverse neighborhoods. For example, residents in Iowa's diverse neighborhoods are less likely to be approved for home mortgage loan applications than residents in non-diverse neighborhoods. Analysis of the 2006 HMDA data reveals that for borrowers across all racial and ethnic groups, only 57 percent of mortgage loan applications in diverse neighborhoods were approved compared to 65.7 percent in the remainder of the state.

Table 3: Loan Activity in Diverse Areas, 2006

Geographic Areas	Loan Approvals	Applications Denied	Applications Withdrawn or Not Completed
Diverse neighborhoods	57.0%	27.3%	15.7%
Non-diverse neighborhoods	65.7%	20.6%	13.7%

By individual racial and ethnic group, the denial rates for residents in the diverse neighborhoods were consistently higher than in non-diverse neighborhoods. For example, the loan denial rate for Black applicants in diverse neighborhoods was 37.4 percent compared to a rate of 31.6 percent in non-diverse neighborhoods. The following chart illustrates the denial rates for selected racial and ethnic groups.

Figure 4



It is apparent that residents of diverse neighborhoods are less likely to obtain loans for purchasing or improving their homes. Because loan approvals and denials are determined primarily by the income and other financial characteristics of the individual applicants, the loan data presented here cannot be used to infer racial or geographic biases in lending. These data were presented merely as an example of how income and other socio-economic characteristics of the population are shaping the neighborhoods where so many of Iowa's minority residents live.

Small Business Activity in Diverse Neighborhoods

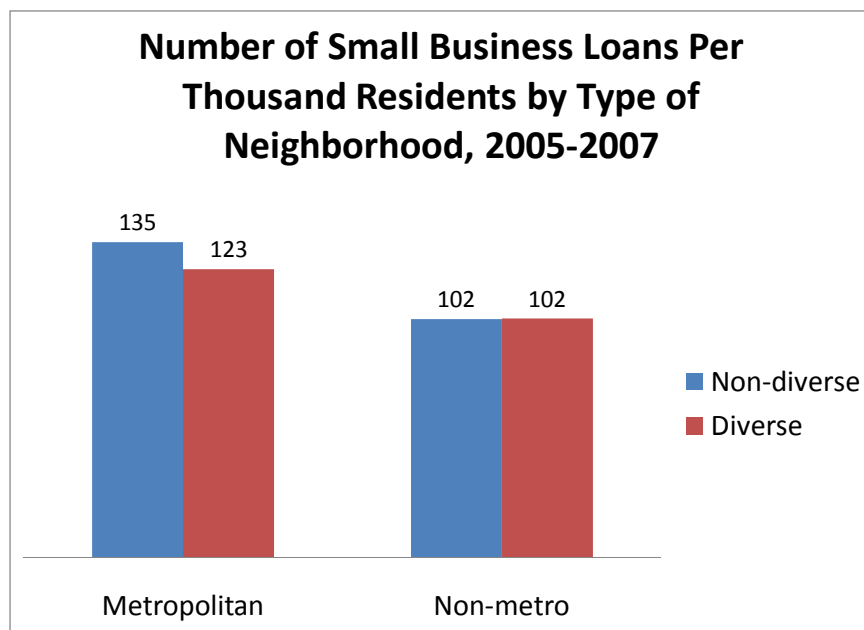
The U.S. Census Bureau provides a wealth of socio-economic data describing persons at very high levels of geographic detail. Unfortunately, there is no comparable source of information about businesses. This makes it much more difficult to characterize levels of business activity in Iowa's diverse and non-diverse areas

Banks and other financial institutions provide one of the few sources of business-related data at the neighborhood level. Under the requirements of the Community Reinvestment Act, regulated financial institutions that meet a minimum asset threshold are required to report their small business loan activity by census tract. Both the number and dollar amount of loans to small businesses are reported based upon the geographic location of the business entity. The race or ethnicity of the borrowers cannot be determined from these data; nor can we determine rates of loan approvals or denials. As such, these data have only limited usefulness in comparing lending patterns to minority and non-

minority businesses. Still, the data can be used as an indicator of aggregate business investment activity within specific neighborhoods.

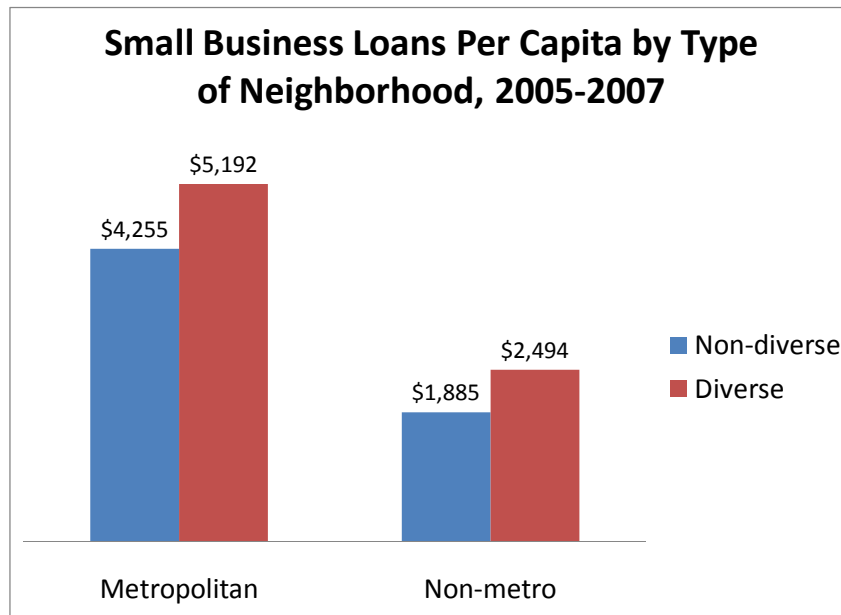
An analysis of Community Reinvestment Act from 2005 through 2007 data suggests that small business lending activity in minority neighborhoods was on par with non-minority neighborhoods during the years from 2005 through 2007. The figure below illustrates the number of small business loans originated per 1,000 residents by type of neighborhood. The rates for metropolitan areas were higher than non-metropolitan areas.

Figure 5



Within metropolitan areas, Figure 5 indicates that the per capita loan rates were slightly higher in non-diverse neighborhoods than in diverse neighborhoods. However, when measured on a dollar basis, this apparent discrepancy is reversed. Figure 6 below illustrates the dollar amount of small business loans by neighborhood type on a per capita basis.

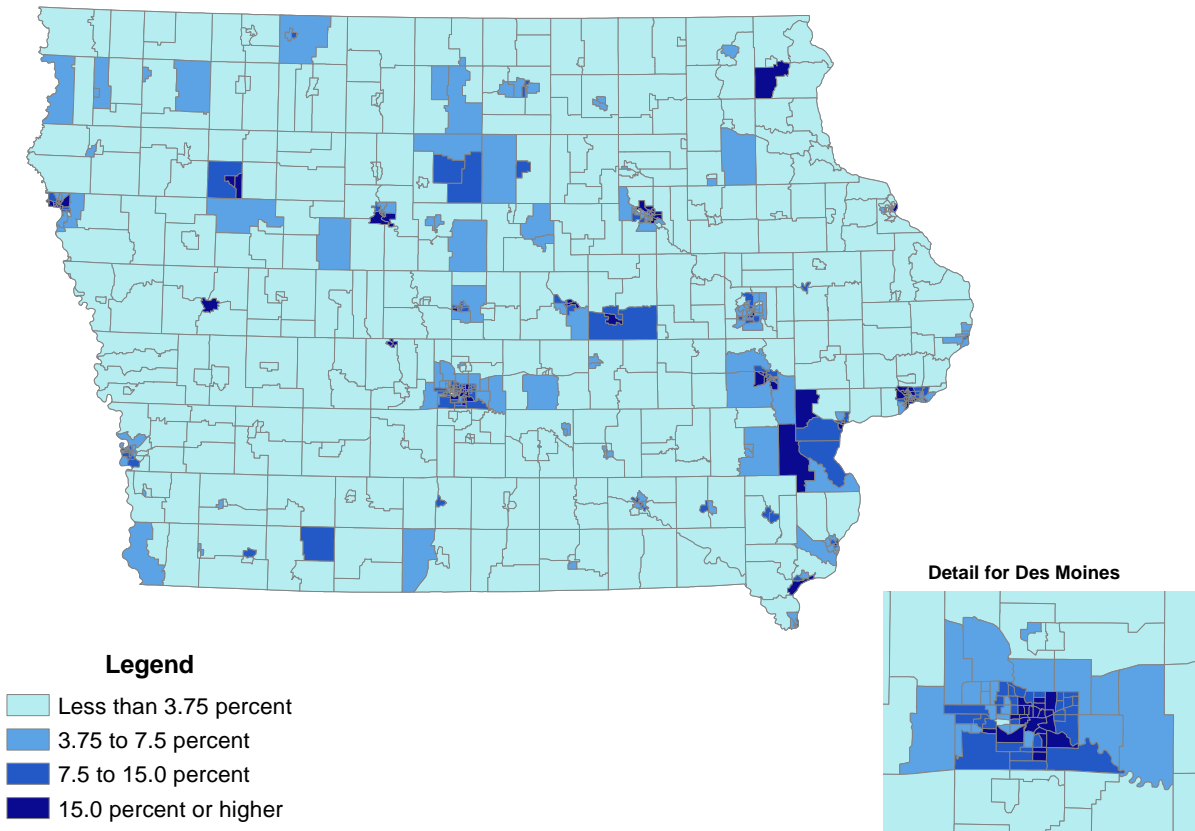
Figure 6



The relatively higher dollar amounts of lending activity in diverse neighborhoods is likely because many of the minority neighborhoods are located in or near the central business districts of Iowa's larger cities. The average size, density, mix, and credit needs of business firms in these areas vary from the types of firms located in less densely populated areas. Land and building rents are also much higher in metropolitan areas than in non-metro areas, and in central business districts, which would necessitate higher business loan levels. Finally, metropolitan areas are trade centers, they have more goods and service production than the immediate population will consume. Stated otherwise, there are more firms per capita in metropolitan areas, and those higher rates of firms are likely located in diverse metropolitan neighborhoods.

Appendix 1. Maps

Minority Percentage of the Population by Census Tract, 2000



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